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The global economy, in a downturn; corporate social responsibility, at the crossroads

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In recent years, corporate social responsibility (CSR) initiatives across North America, Europe and Asia seems like an increasingly popular activity undertaken by companies. An increasing number of multinational companies have established dedicated CSR units and began reporting publicly on a range of socially responsible initiatives from environmental sustainability and human rights to corporate philanthropy.

Up until a year ago, it would have been odd to question the viability and the substance of CSR, given its widespread awareness and growing participation. Then, leading investment bank Lehman Brothers, collapsed, turning what was previously a simmering financial hiccup into a full blown global economic crisis.

In the light of diminishing profits and reduced margins, would CSR prove itself as a valuable aspect of a business' operation or just a "good-to-have" when business is good? Professor Peter Shergold, the Macquarie Group Foundation Chair at the Centre for Social Impact, examines the economic rationale for undertaking CSR activities and the extent to which the goals of corporate responsibility are internally reflected in the operations of businesses. Shergold was speaking at a recent seminar at Singapore Management University, jointly organised by the Lien Centre for Social Innovation and the Civil Service College.

Optimists and cynics

There are two viewpoints toward the survival of CSR. Optimists believe that economic stringency might actually re-make the way corporations look at their socially responsible programmes. Quoting David Grayson from the Doughty Centre for Corporate Responsibility at UK's Cranfield University, Shergold said that businesses might use these belt-tightening times to "differentiate themselves from their 'fair-weathered' counterparts". As the public mood veers towards greater accountability, it is imperative that the commitment to corporate responsibility remain strong.

Cynics, on the other hand, believe that the hard reality of recession will show CSR up as an "increasingly empty and illusionary notion" and a "bold façade built on inadequate foundations". These see CSR as just a series of public relations exercises where cursory charity ventures are promoted to paint a picture of responsible organisations working in a world of caring capitalism.

Having been in the Australian Public Service for two decades, where he has led agencies responsible for indigenous affairs, employment and education, Shergold, who is also a Senior Visiting Fellow of the Civil Service College, feels that many CSR initiatives have actually been undertaken with good intentions and are beneficial to society.

"They've engaged with community organisations, extended pro bono support, provided volunteers and encouraged payroll giving, established matching programmes and dollars-for-doers initiatives, served on board on not-for-profits. They've learnt to build partnerships with community-based organisations who have been keen to gain their financial support. Some of these have worked in areas where governments and their bureaucracies have a history of failure," he said.

"At the very least, CSR has been an umbrella for well-intentioned efforts of corporate do-good. At best it has represented a fundamental shift in the way a business looks at itself and interacts with the society within which it functions. Therefore, the real question to ask is not whether CSR is a good thing – it definitely is – but whether it is perceived as valuable enough to survive sharp declines in business profitability and shareholder value," said Shergold.

The intangible value of CSR

Until the current financial slump, business leaders have believed in the increasing importance of CSR. The problem is finding a definitional clarity to the concept and ensuring that its initiatives are an integral part of business' operations rather than superficial, symbolic gestures.

In 2008, in the third of its bi-annual global CEO studies, IBM surveyed 1,100 business leaders in 40 different countries. Two-thirds of these executives viewed CSR as increasingly important. They also admitted, however, to finding it hard to put into practice.

Where CSR was initially seen as a defensive strategy designed to stave off regulatory intervention, legal challenge, or to counter the media campaigns of consumer and community activists, it is increasingly presented as a positive

strategy, able to add value to long-term corporate goals by adding comparative advantage to market competitors. It has also been argued that business communities' increasing embrace of global issues such as climate change and human rights can help it regain the trust of consumers and investors. "Corporate social responsibility now espouses its mission in terms of an implicit social contract between business and civil society, incorporating expectations of behaviour that must be met," said Shergold.

CSR as a smoke screen

However, he laments, there are still some people who think that CSR is merely about giving stuff away. In a speech by Jon Entine from the American Enterprise Institute, he noted – with some irony – that Fannie Mae was named top corporate citizen in the United States (US) from 2000 to 2004 and three of the top eight companies chosen by American socially responsible investment (SRI) funds were American International Group Inc (AIG), the Bank of America (BOA) and Citigroup. All these financial institutions – which have suffered huge losses, are being kept alive by the US government with billions in bailout money.

Before the crisis hit, the list of programmes launched by these companies certainly look impressive: AIG's retirement benefits and sexual diversity programmes, Bank of America's contributions to charities that were leaders in reducing greenhouse gas emissions, and Citigroup's school donations and environmentally-linked loans, had so impressed investors that they did not question whether "these businesses were actually doing their business".

Shergold explained: "The problem is not that the community and environmental commitments of these corporations have been unworthy. It is that the internal corporate behaviours revealed are too often at odds with the goals of reputation and sustainability that are what is meant to underpin CSR. At the very least, the core values and activities of some financial companies did not reflect the CSR to which they were publicly committed."

Good banking practices of risk-assessment were compromised and remuneration at these financial institutions rewarded short-term performance base on immediate paper profits rather than on sustainable operation cash flows. This encouraged excessive risk-taking behaviour.

For many corporations, the aspired goals of CSR have yet to be fully incorporated into their strategic business plans. For example, most business leaders surveyed by McKinsey & Co on corporate philanthropy said they perceive the personal interests of the CEO as being more important (49%) than whether the initiatives aligned with business needs (23%). Too often, the business executives who head the CSR unit are not integrated into the top business management team. A salary survey in 2007 found that half of the managers of CSR and sustainability had never worked in any other corporate function other than public affairs.

Local interpretations

In Singapore, the CSR concept is gaining popularity, although its practical implementation is still mostly limited to corporate donations and volunteering. In a 2005 survey of 74 Singapore companies and 512 executives, it was found that while there was good understanding amongst corporate executives of the breadth of CSR, actual practice still tended to revolve around philanthropy.

Shergold perceives Singapore to be a regional leader in CSR, in a uniquely Singaporean way where the state has brought together the private sector and labour movement to coordinate a national approach to CSR. Most other countries prefer a 'hands-off' approach, believing that it was best to let businesses regulate themselves in this area. In January 2005, the Singapore Compact for CSR was formed and by early 2007, 41 Singapore companies had signed up with the Singapore UN Global Compact, promising to support values like human rights, fair labour standards, anti-corruption and those were the things that were often portrayed, at least in Singapore, as being part of CSR.

With the economy predicted to contract between by up to 10% in a worst case scenario, and property prices to fall by as much as 40%, the fate of CSR in Singapore lies in whether or not local businesses believe it to make good business sense or if they see it as public relations fluff.


"CSR generally recognises that companies, to be good corporate citizens, need to do more than obey the laws and regulations and meet statutory requirements. The difficulty is that beyond that there are a whole plethora of ways to exhibit ethical standards, social concern and environmental care. Consequently, different companies and different stakeholder groups will emphasise different priorities," said Shergold.


Businesses need to believe that caring for employees, communities and the environment is not only politically and ethically correct, but also make good business sense. Based on a 2005 survey of Singapore executives, though 57% of the Singapore companies interviewed believed that CSR increases customer loyalty and 53% agreed that it improves organisational culture, 49% of these companies' employees saw corporate responsibility as mostly a publicity issue. Most equated CSR with philanthropic activities such as corporate donations and volunteering with one interviewee going so far as to say that Singapore companies tend to see CSR as "donating money to charities and putting out a statement so that people know they have done it".

CSR 2.0

Shergold foresees that if CSR is not perceived as a benefit to business, then the view of companies and their shareholders is likely to favour a reduction in its activities. Unless the CSR concept remakes itself from "CSR 1.0" into "CSR 2.0" – the latter being a more revolutionary form of the old-style philanthropic former – many worthwhile and beneficial programmes that have existed under its umbrella may become a casualty of the economic slump.

"We need to see reputation and sustainability not only in external programmes but also in the way the business allocates its resources, manages risk, organises remuneration structure, and the leadership culture that it aspires to. It needs to be formed by an ethos of collaboration built upon the negotiation of shared power objectives with a not-for-profit organisation and social enterprise that articulates and represents the community interest," said Shergold.

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